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Bolesta, Andrzej

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Creating a Post-Socialist Developmental State: The Political Economy of China's Transformation and Development

Abstract

Since 1978 China has been undergoing a dual process of:

- systemic transformation from a centrally-planned state-command economic model to a market-based open economic model, and
- the acceleration of socio-economic development to become a high income economy.

This article argues that to accelerate economic growth in the transformational period, China has been following the provisions of the Post-Socialist Developmental (PSDS) model. This model fuses two processes: post-socialist economic transformation (PST) and the establishment of the developmental state (DS). Historically, the DS model is believed to be the systemic, institutional and policy arrangement responsible for spectacular civilizational advancements of East Asian economies in the second half of the twentieth century.

In effect China is attempting to imitate its developmentally successful neighbours, in particular, Japan and Korea, despite being significantly different in terms of its capacity and historical-institutional experiences. It does so by introducing economic nationalism as the paramount state ideology, by creating a central economic bureaucracy to guide reforms, by keeping planning as an important state instrument, and, foremost, by maintaining a strong and authoritarian state in charge of development and keeping the society relatively weak, nevertheless engaging it in the process of policy creation. At the same time the PSDS model's implementation results in the state's preference for a gradual path of systemic reformulation. Moreover, China's economic policies resemble the economic policies of Japan and Korea. The industrial policy is focused on targeting certain sectors and industrial production is, to a large extent, aimed at export. The state utilises market distortive instruments in its policy of international economic expansion.

Even the current efforts at economic liberalization by the administration of president Xi Jinping are not aimed at dislocating the PSDS principles. In fact, many recent institutional and organizational changes prove that the state's leadership is willing to continue its PSDS-determined path. Moreover, external and internal factors contribute to this conviction; hence China's interventionist state will prevail in the foreseeable future.

Keywords: China, development, post-socialist transformation, economic policy, developmental state, post-socialist developmental state

Tworzenie posocjalistycznego państwa rozwojowego. Ekonomia Polityczna Transformacji i Rozwoju Chin

Streszczenie

Od 1978 roku Chiny przechodzą podwójny proces:

- transformacji ustrojowej od modelu gospodarki centralnie planowanej i nakazowo-rozdzielczej do modelu opartego na wolnym rynku, oraz
- transformacji rozwojowej, mającej na celu osiągnięcie statusu gospodarki wysoko rozwiniętej.

W celu przyspieszenia wzrostu gospodarczego w okresie transformacji, Chiny zaadoptowały model państwa oparty na koncepcji „posocjalistycznego państwa rozwojowego” (post-socialist developmental state – PSDS). Model ów łączy dwa procesy – posocjalistyczną transformację gospodarczą oraz wdrażanie schematów państwa rozwojowego (developmental state – DS). W literaturze przedmiotu DS jest często postrzegany jako systemowa i instytucjonalna konstrukcja, łącząca także politykę gospodarczą, odpowiedzialna za spektakularne osiągnięcia rozwojowe gospodarek wschodnioazjatyckich w drugiej połowie XX wieku.

Chiny próbują zatem naśladować tych swoich sąsiadów, którzy osiągnęli wymierny sukces gospodarczy, w szczególności Japonię i Koreę, pomimo występujących różnic, chociażby pod względem doświadczeń historyczno-instytucjonalnych. Polityka ta jest widoczna, kiedy obserwuje się adoptowanie nacjonalizmu gospodarczego jako głównej ideologii państwa, budowanie i umacnianie centralnej biurokracji gospodarczej nadzorującej reformy, wykorzystywanie planowania jako ważnego instrumentu polityki gospodarczej, ale przede wszystkim, gdy widzi się utrzymywanie silnego i autorytarnego aparatu państwowego odpowiedzialnego za rozwój społeczno-gospodarczy, kontrastującego z instytucjonalnie słabym społeczeństwem, które niemniej jednak tenże aparat angażuje w proces tworzenia polityki reform. Jednocześnie wdrażanie koncepcji PSDS powoduje, iż państwo preferuje stopniową ścieżkę reform systemowych.

Polityka gospodarcza Chin przypomina politykę gospodarczą Japonii i Korei. Polityka przemysłowa koncentruje się na rozwijaniu wybranych gałęzi przemysłu. Produkcja jest, w dużej mierze, kierowana na eksport. W swoich działaniach, także w procesie ekspansji gospodarczej na rynki zagraniczne, państwo wykorzystuje instrumenty znieszkodliwiające sygnały rynkowe.

Obecne wysiłki administracji prezydenta Xi Jinping na rzecz liberalizacji gospodarczej nie mają na celu zaniechanie wdrażania PSDS. W rzeczywistości, wiele ostatnich zmian instytucjonalnych i organizacyjnych udowadnia, iż przywódcy państwa chcą kontynuować ścieżkę reform i rozwoju opartą na PSDS. W przekonaniu o jej słuszności, utwierdzają ich ponadto czynniki zewnętrzne i wewnętrzne. Dlatego też Chiny nie zrezygnują z szeroko pojętego interwencjonizmu państwowego w najbliższej przyszłości.

Słowa kluczowe: Chiny, rozwój społeczno-gospodarczy, posocjalistyczna transformacja, polityka gospodarcza, posocjalistyczne państwo rozwojowe

Introduction

When China commenced its economic transformation from central planning to market, it chose to look East, presumably because of its historical, cultural and geographical proximity, to its developmentally successful neighbours, namely Japan, Korea and Taiwan. In scholarly literature those three countries' model of transformation and development has often been described as developmental state (DS)¹. However, it has also often been argued that China's affinity to its capitalist neighbours is rather limited, as China, in its historical experiences, economic capacity and size of land and population, is significantly different. It is – to quote Jacques – a civilization-state rather than a nation state² and this makes it rather unique.

Nevertheless, this article argues that as far as its transformation and development trajectories are concerned, post-Mao China has followed the concept of developmental state, by imitating Japan, Korea and Taiwan. As China is also a post-socialist economy, by following other developmental states, it has become a genus of Post-Socialist Developmental State (PSDS). The concept of the Post-Socialist Developmental State is a new idea which has only recently been developed into a concrete set of characteristics³.

This paper is divided into five parts. The first section describes the features of the PSDS model. The second part acknowledges the literature which examines China in reference to the developmental state model. The third section deals with systemic and ideological arrangements of post-socialist China. The fourth part examines the economic policies. The reference for the analyses in both sections is the provisions of the DS model. The fifth part confronts the policies of current state administration led by Xi Jinping with the PSDS concept.

¹ See, for example, Ch.A. Johnson, *MITI and the Japanese Miracle: The growth of Industrial policy, 1925–1975*, Stanford University Press, Stanford 1982; A.H. Amsden, *Asia's Next Giant: South Korea and Late Industrialization*, Oxford University Press, Oxford 1989; R. Wade *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*, Princeton University Press, Princeton 1990; B. Cumings, *The Origins and Development of the Northeast Asian Political Economy. Industrial Sectors, Product Cycles and Political Consequences*, "International Organization", 38(1), p. 1–40.

² M. Jacques, *When China Rules the World: The End of the Western World and the Birth of a New Global Order*, Second Edition, Penguin Books, New York 2012.

³ See: A. Bolesta, *China and Post-Socialist Development*, Policy Press, Bristol 2015.

The Post-Socialist Developmental State

In the times when the neo-liberal economic doctrine ceased to be considered a panacea for underdevelopment, and during the period in which large emerging economies, in particular China, increase their role, position and influence over the global economy, one is bound to see the revival of a discussion on various development models. Although the world has passed the period of naiveté that one may establish a “one fits all” pattern to counter backwardness, there will be a growing tendency to construct development models, as the convenience of standardisation is too tempting to miss.

Undoubtedly, the concept of the post-socialist developmental state – being in strong opposition to neo-liberalism – may arise as an interesting option. Coined in the early 2000s⁴, it has subsequently been developed into a concrete construction, containing features related to state ideology, systemic arrangements and economic policies⁵.

The concept of post-socialist developmental state (PSDS) fuses two intellectual streams, that of the developmental state (DS) and that of the post-socialist transformation (PST). However, despite the fact that the post-socialist transformation's partial incentive was the need to accelerate socio-economic development and the DS model proved to have been the most successful policy and institutional arrangement in this respect, the attempts to combine those two intellectual streams have been scarce⁶. This is because the DS model has often been seen as a historical phenomenon with little meaning in the era of globalisation and, at least in theory, the two processes have not occurred concurrently, as the PST coincided with the elevation of neo-liberalism to the only acceptable paramount economic ideology.

The constructing of the PSDS thus revives the concept of the developmental state and broadens its potential applicability to a new group of countries, namely those in post-socialist transformation, and, inevitably, extends its lifespan to the present.

Post-socialist transformation is by no accounts a minor process. It concerns a quarter of mankind. Institutionally, it has probably been the most complex endeavour of systemic reformulation of the contemporary world of late twentieth and early twenty-first centuries. In simplistic terms, the process has been twofold in nature: from the political perspective, authoritarian regimes have been replaced by democracies;

⁴ See: P. Deans, *The People's Republic of China: The Post-Socialist Developmental State*, in: *Developmental States: Relevancy, Redundancy or reconfiguration?*, Ed. L. Low, Nova Science Publishers, New York 2004, p. 133–146.

⁵ See: A. Bolesta, op.cit., Chapter Five.

⁶ See: Ibidem.

and from the socio-economic perspective, the systems have been transformed 'from centrally-planned economies based on state ownership domination and bureaucratic control mechanisms into the free market economies based on private ownership and a deregulated market'⁷. As far as the DS concept is concerned, '[it] is widely believed to be the conceptual background of state policies and state institutional arrangements, leading to the unprecedented developmental achievements among the so-called late developers of the Asian continent'⁸. The PSDS model would, thus, be based on the arrangements of the DS model adjusted by the contemporary conditionality that is globalisation and its various consequences, and post-socialist transformation, a multi-layered process of systemic reformulation.

The concept of the developmental state has been researched extensively. It has probably been examined from all possible angles. Despite its critics⁹, it is beyond doubt that the ascendance of Japan, Korea and Taiwan, all three countries and territories having been developmental states, into the group of highly developed nations has been the fastest in the world's economic history¹⁰.

In order to comprehend the main features of the developmental state, one needs to present four components of the model; namely, its ideological background, its systemic arrangements, its general economic policies and the interrelation of four main actors of the process of transformation and development, described by Stubbs as "relational aspects"¹¹.

The state main ideology is nationalism and, in particular, economic nationalism, which constitutes the background for economic policies and protectionist measures to shield the domestic economy from unwanted penetration by foreign economic entities and, in particular, to create somewhat a cocoon for the domestic business sector to mature.

⁷ G. Kołodko, *Instytucje i polityka a wzrost gospodarczy*, „Ekonomista” 2004, No. 5, p. 609–634. More on post-socialist transformation see: L. Balcerowicz, *Socjalizm, kapitalizm, transformacja. Szkice z przełomu epok*, PWN, Warszawa 1997; G. Kołodko, *Od szoku do terapii. Ekonomia i polityka transformacji*, Poltext, Warszawa 1999; G. Kołodko, *Globalizacja i perspektywy rozwoju krajów posocjalistycznych*, TNOiK, Toruń 2001.

⁸ See: A. Bolesta, p. 7.

⁹ See, for example, J. Page, *The East Asian Miracle: Four Lessons for Development Policy*, “NBER Macroeconomics Annual” 1994, Vol. 9, Eds. S. Fischer, J.J. Rotemberg, MIT Press, p. 219–282; W.T. Woo, *The Changing Ingredients in Industrial Policy for Economic Growth*, Paper presented at the Asia-Pacific Research and Training Network (ARTNeT) Symposium *Towards a Return of Industrial Policy?*, 2011, 25–26 July, ESCAP, Bangkok; *The East Asian Miracle: Economic Growth and Public Policy*, World Bank, Washington DC 1993.

¹⁰ See: M. Jacques, *When China...* op.cit.

¹¹ See: R. Stubbs, *What Ever Happened to the East Asian Developmental State? The Unfolding Debate*, “The Pacific Review” 2009, No. 22(1), p. 1–22.

The state economic policies are framed within the process of industrialisation, and more precisely, import-substitution industrialisation, which is followed by export-oriented industrialisation¹². Those policies are determined by the wild geese flying pattern¹³ and by the concept of “industrialising by learning and then by innovating”¹⁴. They employ state targeting as the main mechanism to develop particular industrial sectors. This targeting is characterised by the gradual increase of value-added production. Industrial policy is supported by trade policies to selectively discriminate import and selectively support export and by a broad array of financial sector-related policies, including subsidies, manipulation of interest and exchange rates and the subordination of the banking sector to the developmental necessities¹⁵. Historically, this industrialisation was preceded by agrarian reforms aimed at acceleration of food production, and more importantly, by eliminating potential political opposition to the state and generating support among the rural population for subsequent reforms.

The relational aspects concern the interaction of four actors, the political elite, the state economic bureaucracy (together “the state”), the society and the business. Their interaction is defined by the concept of “embedded autonomy”. The society, including the business, is able to influence the state, however, the state remains extensively insulated in the process of decision making concerning economic and development policies and institutional arrangements. This relation is highly uneven and unequal, as a strong state exercises its powers over a subordinate society¹⁶. Nevertheless, this state supports development of the domestic business sector by means above which is often considered sufficient intervention and facilitates export expansion.

The developmental state is an authoritarian state or, if it is democratic, then there are mechanisms in place to shield development trajectory from political short-termism,¹⁷ characterised by a situation in which reforms and policies are aimed at short-term gains rather than long-term effects. This short-termism is prevalent in many democratically-ruled emerging economies. The developmental state is a strong state that presides over developmental transformation. The economic system exhibits features of a free market and central planning at the same time, and

¹² See: S. Haggard, *Pathways from the Periphery*, Cornell University Press, Ithaca 1990; R. Stubbs, *What Ever...* op.cit.; J.-G. Jeon, *Exploring the Three Varieties of East Asia's State-Guided Development Model: Korea, Singapore, and Taiwan*, “Studies in Comparative International Development” 1995, No. 30(3), p. 70–88.

¹³ See: K. Akamatsu, *A Historical Pattern of Economic Growth in Developing Countries*, “Journal of Developing Economies” 1962, No. 1(1), p. 3–25.

¹⁴ For this see: A.H. Amsden, op.cit.; A. Bolesta, op.cit., p.180–188.

¹⁵ See: A. Bolesta, op.cit., Chapter Four.

¹⁶ A. Leftwich, *States of Development: On the Primacy of Politics in Development*, Polity Press, Cambridge and Oxford 2000, p. 160.

¹⁷ As was the case of Japan.

was described by Johnson in his analysis of the industrialisation of Japan, as a “plan rational”¹⁸. State interventionism is focused on the development trajectory rather than social cohesion. The transformation is governed by a paramount development agency with its prominent economic bureaucracy. Historically, external conditions of insecurity and threat of violent conflict were permanent features of the developmental state’s landscape.

However, the task of the PSDS is significantly broader than that of DS. In addition to guiding development trajectory, the post-socialist developmental state must also be responsible for post-socialist systemic transformation, namely economic liberalisation, market institutionalisation and microeconomic restructuring. This economic-systemic reorganisation creates unfavourable conditions; the state focuses on systemic reformulation and usually neglects the developmental necessities, as was the case in a number of countries in Central and Eastern Europe (partly due to ideological reasons) and the economy is entangled in the “transitional vulnerability” due to an institutional and legal vacuum, which limits the state’s developmental abilities.

If we were to follow the DS recipes, the post-socialist transformation and development trajectories, according to the PSDS, would be:

- characterised by selective, and perhaps cautious economic liberalisation, as the so-called “shock therapy” has produced extensive economic contraction in the post-socialist world and subsequently significantly impaired the developmental dynamics. This dynamics is of paramount importance to the post-socialist developmental state;
- within the process of systemic reformulation, the mechanism of state-command or central planning would be replaced by indicative, guiding planning rather than be dismantled, to allow the state to retain capacity for creating “plan rational”;
- the old economic bureaucracy would be restructured along the DS lines. Thus, a paramount developmental agency would be established, which would not only take up the task of coordinating the overall development, but also would be responsible for designing and implementing systemic reforms and preventing the developmental dynamics from being affected by transformational vulnerability.

Most importantly, however, from a systemic and institutional perspective, and in order to perform the aforementioned tasks, the state would remain at the centre of the process of transformation and development and its retraction, upon embarking on post-socialist transformation, would be significantly more limited than was the case of most post-socialist European economies.

¹⁸ Ch.A. Johnson, op.cit.; *The Developmental State*, Ed. M. Woo-Cumings, Cornell University Press, Ithaca 1999.

Moreover, the post-socialist developmental state would draw from historical experiences, for example, coordination mechanisms for development, and would rely on historical advantages such as a relatively well educated society. It could use its “industrial capital”, such as the existence of a relatively well developed heavy and chemical industry (HCI), though this industry may be in desperate need of restructuring and modernisation.

Contemporarily, the PSDS task of nurturing development is both easier and more difficult as compared with the historical developmental states of Japan, Korea and Taiwan. Firstly, the current global economic order is more intrusive and thus generates more pressure from the so-called international community for liberalisation of domestic economies, leaving less space for self-designed protectionist measures, so prominent in historical DS cases, and exposing the domestic business sector to often fierce international competition. Consequently the state ‘is required to increasingly negotiate its obligations and privileges in international forums’¹⁹. Secondly, environmental degradation and climate change have become profound factors which not only affect contemporary development models as they need to be taken into consideration if a model shall succeed in the long term, but, as many claim, they require a dramatic reshaping of the very pattern of human existence²⁰. The positive effects of globalisation and technological advancements are that access to knowledge has become easier, which creates preferable conditions for rapid human capital increase, as compared to what was possible only decades earlier.

China as a Developmental State

There is sufficient empirical evidence to support the argument that China has been undergoing a post-socialist transformation from a centrally-planned, state-command and closed economic model to a market-based, open economic model. In that sense, despite the continuous ruling of the communist party, China is a post-socialist economy. It is its developmentalstateness, i.e. whether China can be considered a developmental state and thus a genus of a post-socialist developmental state, which is often put into question and generates scholarly debate and therefore needs to be examined here.

¹⁹ A. Bolesta, op.cit., p. 229.

²⁰ See: N. Klein, *This Changes Everything: Capitalism vs The Climate Change*, Simon and Schuster, New York 2014.

Naturally, the recent developmental advancements by China are bound to prompt questions as to the sources of Chinese development trajectory and the role of its government. The country's geographical proximity and cultural affinity to Japan, Korea and Taiwan makes some academics wonder about its relation to the historical DS cases. Baek's question 'Does China follow the East Asian development model?'²¹ represents the curiosity of many scholars whose interest lies in socio-economic development and the state's role therein, public policy, and geographically – in emerging economies, East Asia, and last but not least – China itself.

Some scholars such as Breslin believe that the Chinese path of development contains some similarities with capitalist developmental states of East Asia, but they are not convinced that China is actually a developmental state²². Breslin calls China's development a dysfunctional one, as 'political demands have been a major factor in the Chinese economic decision-making process'²³. Consequently, 'China's developmental trajectory owes at least as much to the dysfunctional agglomeration of numerous local initiatives as it does to the plans and strategies of the national level decision-making elites'²⁴. For Howell it is the lack of an effective central state as a prime actor and the alleged lack of Evans' embedded autonomy²⁵ that undermine the case for China as a developmental state²⁶. A lack of firmly established property rights and the processes of administrative and fiscal decentralisations have also been seen as explanations for why China cannot be perceived as a developmental state. According to Breslin the reforms were motivated by the ruling elite's desire to hold on to power and were designed so that no group loses too much in the process²⁷. Moreover, transformation has been characterised by a conflict within the ruling elite as to the specifics and destination of the reforms, as the reformers had no previous experience and knowledge in utilising and controlling market mechanisms²⁸. These phenomena are meant to clearly distinguish contemporary China from historical developmental states.

However, White et al. and Lin saw China as a socialist developmental state, with Lin arguing that it ceased to be one during the post-socialist transformation²⁹. Others

²¹ S.W. Baek, *Does China Follow 'the East Asian Development Model'?*, "Journal of Contemporary Asia" 2005, No. 35(4), p. 485.

²² Sh. Breslin, *China: Developmental State or Dysfunctional Development?*, "Third World Quarterly" 1996, No. 17(4), p. 689–706.

²³ Ibidem, p. 692.

²⁴ Ibidem, p. 689.

²⁵ For the concept of "embedded autonomy" see: P. Evans, *Embedded Autonomy: States and Industrial Transformation*, Princeton University Press, Princeton 1995.

²⁶ J. Howell, *Reflections on the Chinese State*, "Development and Change" 2006, No. 37(2), p. 273–297.

²⁷ Sh. Breslin, op.cit.

²⁸ Ibidem, p. 692–693.

²⁹ *Developmental States in East Asia*, Ed. G. White, Macmillan Press, New York, 1988; Ch. Lin, *The Transformation of Chinese Socialism*, Duke University Press, Durham 2006.

claim that the path to the DS model was abandoned during the 1990s, when China decisively turned towards liberal capitalism.

There is a group of scholars, however, who consider China of the twenty-first century a developmental state. Baek claims that 'Chinese aspects of this developmental state include: the high rate of domestic savings, the huge infrastructure of heavy industry, the promotion of industrial policy, the legacy of central planning, labour-intensive industry accompanied by import-substitutive capital-intensive industry, a strong central government with huge bureaucracy, and corporatist control over the society'³⁰. He claims that these characteristics fit into Wade's ten policy advice for the "governed market" and thus make China a genus of the DS model. Knight is convinced that China is a type of a developmental state, and indeed, a very successful one, as illustrated by the long-term dynamics of economic growth³¹. For Ping the Chinese developmental state model is based on the 'socialist state directed market capitalism'³². Lee and Mathews underline that China today draws on the entire Northeast Asian developmental experience, including Japan, Korea, Taiwan, as well as Singapore, and they attempt to summarise the developmental achievements of Northeast Asia as "the BeST Consensus for development", where BeST stands for Beijing, Seoul and Tokyo³³. Cai quotes Wong that ' [al] though there are significant differences between the current path of China's development and that of Japan and South Korea, they should be seen as in different stages traveling along the same route' (p. 5)³⁴. As a result, some have called China also a post-socialist developmental state³⁵.

³⁰ S.W. Baek, op.cit., p. 487.

³¹ J. Knight, *China as a Developmental State*, CASE Working Paper, WPS/2012-13, November, Oxford 2012.

³² J.H. Ping, *The Chinese Development Model: International Development and Hegemony*, in: Eds. B. McCormick, B. and J.H. Ping, *Chinese Engagements: Regional Issues with Global Implications*, Bond University Press, Robina 2011, p. 167-199.

³³ K. Lee and J.A. Mathews, *From Washington Consensus to BeST Consensus for World Development*, "Asian-Pacific Economic Literature" 2010, No. 24(1), p. 1-22.

³⁴ J. Wong, *The Adaptive Developmental State in East Asia*, "Journal of East Asian Studies" 2004, No. 4, p. 345-362, cited in: F. Cai, *The Developmental State in the Globalizing World*, Paper, University of York, New York 2010, p. 5.

³⁵ A. Bolesta, op.cit., p. 227-244; P. Deans, op.cit.; J.-A. van Wyk, *Crouching tigers, leaping lions? Developmental leadership lessons for Southern Africa from China and Malaysia*, paper submitted for the Regional Conference on Building Democratic Developmental States for Economic Transformation in Southern Africa, 20-22 July 2015, Pretoria, South Africa.

The Systemic Arrangements

Each political and economic system is characterised by a certain state ideology, a set of ideals followed by the state and having an impact on state's actions and policies, as well as on preferences for systemic and legal arrangements. In the context of the developmental state, it is the state economic ideology which is of paramount importance. Levi-Faur distinguished three main economic ideologies, namely, economic socialism, economic liberalism and economic nationalism³⁶. It is believed that as a result of post-socialist transformation, China has replaced economic socialism with economic nationalism³⁷, as opposed to economic liberalism preferred by many European post-socialist states. Moreover, China's economic nationalism has shown distinctive features of the DS model. By utilising a nationalistic rhetoric, the state has gained the capacity to mobilise the nation behind the common goals. This way it has also justified the extraordinary measures it has taken to protect the domestic market. '[Economic nationalism] is visible in prohibitive procurement practices demanding [...] local content, in discriminatory use of labour and competition laws aimed at targeting foreign entities, in arbitrary decisions related to economic activities, guided by ambiguous regulations of local and state authorities'³⁸. It influences economic reforms and the establishment of the economic system.

When commencing reforms, Chinese authorities instantly rejected the ideas of radicalism later framed within the Washington Consensus. The alternative was the gradual path. 'Nevertheless, this is hardly a gradual pace of reforms, which indicates the affinity of the Chinese development trajectory with the DS model. Rather, it is the reform selectivity, focused on maintaining a tight grip over economic freedom in certain sectors of the national economy, partly via access barriers and investment limitations (see: The Catalogue Guiding Investment in Industry) and on establishing a strong domestic business base through market distortive mechanisms.'³⁹ In particular, it is important to emphasise China's style of business sector transformation. China has focused on state-supervised strengthening of its domestic business base and state-controlled restructuring of companies, rather than broad privatisation and allowing companies to go bankrupt. By selective opening up, it shielded its business

³⁶ D. Levi-Faur, *Economic Nationalism: From Friedrich List to Robert Reich*, "Review of International Studies" 1997, No. 23, p. 259–370.

³⁷ See: S.L. Shirk, *China Fragile Superpower. How China's Internal Politics Could Derail its Peaceful Rise*, Oxford University Press, New York 2007.

³⁸ A. Bolesta, *op.cit.*, p. 235.

³⁹ *Ibidem*, p. 233.

sector from foreign competition. It was a choice dictated by the DS logic, as it would allow for the business sector to be retained in domestic hands.

Moreover, the reform focused on creating economic bureaucracy with an influential pilot agency to preside over economic modernisation. The powers of China's National Development and Reform Commission (NDRC) equal almost those of the Korean Economic Planning Board (EPB) and far exceed those of the Japanese Ministry of International Trade and Industry (MITI). Both MITI and EPB are considered the paramount development agencies during the high growth periods. Recently, a new coordinating body has been created to supervise the design and implementation of reforms, which strengthens the role of the state leadership at its highest level⁴⁰.

China chose to retain extensive planning powers and capabilities. The Chinese political elite saw central planning not only as compensating for economic liberalisation⁴¹, but also as the DS-style "plan rational" to guide development⁴². Consequently, China did not relinquish extensive state interventionism. Instead, it has searched for new means and instruments of intervention and control in the new market conditions.

Finally, as far as political reforms are concerned, in political reformulation without liberalisation, China chose to keep a type of authoritarianism. In the DS context, this policy has been closer to the Taiwanese and the Korean cases than the Japanese case. China's authoritarianism exhibits features of what Woo-Cumings and Fewsmith describe as new authoritarianism, with an undemocratic state, which is responsible for guiding developmental advancements⁴³. Maintaining an authoritarian state has been aimed at creating a strong and capable state, according to the widely held view that authoritarianism is better suited for fast development in a developing country. The authorities have attempted to strengthen their power and control over the society and the business sector⁴⁴, as illustrated by forging links with and influencing newly emerging social structures⁴⁵, which are the result of systemic changes. These links are intended to maintain a DS-style uneven relationship with other state actors⁴⁶, for example, through the policy of suppressing the labour force⁴⁷, common in the DS

⁴⁰ More detail is provided later in this article.

⁴¹ L.J. Lau, Y. Qian, *Reform without Losers: An Interpretation of China's Dual-Track Approach to Transition*, "Journal of Political Economy" 2000, No. 108(1), p. 120–163.

⁴² See: *The Developmental...* Ed. M. Woo-Cumings, op.cit.

⁴³ Ibidem; J. Fewsmith, *China Since Tiananmen. From Deng Xiaoping to Hu Jintao*, Cambridge University Press, Cambridge 2008.

⁴⁴ See: J. Howell, *An Unholy Trinity? Civil Society, Economic Liberalization and Democratization in post-Mao China*, "Government and Opposition" 1998, No. 33(1), p. 56–80.

⁴⁵ See: B.J. Dickson, *Cooptation and Corporatism in China: The Logic of Party Adaptation*, "Political Science Quarterly" 2001, No. 115(4), p. 517–540.

⁴⁶ A. Leftwich, op.cit.

⁴⁷ See: D.J. Solinger, *The Creation of a New Underclass in China and its Implications*, "Environment & Urbanization" 2006, No. 18(1), p. 177–193.

historical cases⁴⁸. At the same time, although the authoritarian regime is believed to be relatively insulated, it has strived for embeddedness through a social dialogue⁴⁹ to create some form of Evans' embedded autonomy⁵⁰. It is gradually extending negotiation and consultation channels to the society and business, for example, via rural democracy⁵¹, public soliciting of new laws⁵², and an increased consideration of public opinion communicated through the internet.

The Policies

Post-socialist China's development policies have also resembled the DS model. Rural reforms included distribution of land to small-scale farmers. 'By creating family units and a household responsibility system, Deng Xiaoping addressed two important issues: firstly enabled a rapid rise of the volume of production, as China was experiencing food shortages. Secondly, by empowering the farmers and creating conditions for more effective wealth generation, bolstered rural support for its new economic policies'⁵³. It is important to remember that despite various rural initiatives during the Mao Zedong era, the rural areas remained grossly neglected as compared with urban territories. Increasing the volume of food production and broadening support in rural areas for further state development activities were very much the targets of Korean and Taiwanese land reforms⁵⁴. Naturally, the arable land fragmentation was not the optimal strategy to increase the effectiveness of food production, nevertheless, as defined by the DS model, it served the aforementioned political purpose.

During the post-socialist transformation, industrial policy was not abandoned, as in the case of many post-socialist economies, but it came to resemble the activities of

⁴⁸ See: M.E. Gallagher, *Contagious Capitalism: Globalization and the Politics of Labor in China*, Princeton University Press, Princeton 2005.

⁴⁹ For details see: *European Business in China Position Paper 2009/2010*, European Union Chamber of Commerce in China, Beijing 2009; *European Business in China Position Paper 2010/2011*, European Union Chamber of Commerce in China, Beijing 2011.

⁵⁰ P. Evans, *op.cit.*

⁵¹ See: K.J. O'Brien, L. Li, *Accommodating 'Democracy' in a One-Party State: Introducing Village Elections in China*, "The China Quarterly" (Special Issue: Elections and Democracy in Greater China) 2000, No. 162, June, p. 465–89.

⁵² *European Business in China Position Paper 2009/2010*, *op.cit.*

⁵³ A. Bolesta, *op.cit.*, p. 236.

⁵⁴ See: A. Alesina, D. Rodrik, *Distributive Politics and Economic Growth*, "Quarterly Journal of Economics" 1994, No. 109(2), p. 465–490; B. Cumings, *op.cit.*; R. Wade, *op.cit.*; J.-G. Jeon, *op.cit.*; R.F. Doner, B.K. Ritchie and D. Slater, *Systemic Vulnerability and the Origins of Developmental States: Northeast and Southeast Asia in Comparative Perspective*, "International Organization" 2005, No. 59 (Spring), p. 327–361.

Japan and Korea during their high growth developmental periods⁵⁵. China's industrial policy has been characterised by all the features of the East Asian industrial policy⁵⁶. Import-substitution industrialisation (ISI), in China's case a legacy of state-command economy, was supplemented by export-orientated industrialisation (EOI) in the post-socialist era, and subsequently tuned into the DS pattern of gradual change in the industrial targeting from labour-intensive to capital- and technology-intensive sectors⁵⁷. However, at the beginning of transformation, labour-intensive light industry became the focus, despite the socialist heritage of having a more developed capital intensive heavy and chemical industry. Naughton argues that it was due to the fact that the socialist development of HCI created an illusion of skipping the light industry development period⁵⁸. The reason for light industry development was convincing; the need to accelerate growth. In a predominantly rural and underdeveloped country, it was only possible by shifting the population from rural jobs to industrial jobs, which promised more space for further development and theoretically larger gains. The fastest way to achieve this was by the rapid expansion of industry which required a large number of workers with limited skills. Among the reasons was also the desire to increase China's participation in international trade. It was export and not domestic consumption which initially could fuel growth, as the local capacities to spend were limited. Subsequently, in order to increase the technology intensity of its export-orientated production, China began the policy of the rapid development of its R&D base, as well as extensive importation of technologies by all means available; purchasing, swapping access to its domestic market for high-tech transfer, demanding it by using regulations and formal and informal pressure from international investors and foreign business partners, often violating intellectual property rights (IPR)⁵⁹.

It is astonishing how large and extensive China's development machinery has become. Literally all economic and public policies have focused on national development. The government employed various policy instruments to guide domestic development in the direction it considered desirable; from directly targeting the sectoral industrial development, as mentioned above, to various trade-related and

⁵⁵ For details on the Japanese and Korean industrial policies see: A. Bolesta, *The East Asian industrial policy: a critical analysis of the developmental state*, "Public Policy Studies" 2014, No. 2(2), p. 9–31.

⁵⁶ See: H-J. Chang, *Industrial Policy and East Asia – The Miracle, the Crisis, and the Future*, A revised version of the paper presented at the World Bank workshop on "Re-thinking East Asian Miracle", 16–17 February 1999, San Francisco; H-J. Chang, *Industrial Policy: Can We Go Beyond an Unproductive Confrontation?* A plenary paper for Annual World Bank Conference on Development Economics (ABCDE), 22–24 June 2009, Seoul.

⁵⁷ For details see: A. Bolesta, op.cit., Chapter Four.

⁵⁸ B. Naughton, *The Chinese Economy: Transitions and Growth*, The MIT Press, London 2007.

⁵⁹ *European Business in China Position Paper 2007/2008*, European Union Chamber of Commerce in China, Beijing 2008.

financial system-related policies, including those, which massively distorted market incentives. Their thorough examination would require a voluminous book. For example, various aspects of the monetary policy have not been aimed at macroeconomic stabilisation, but have focused on developmental issues. An artificial exchange rate of the undervalued RMB is maintained to make export more internationally competitive⁶⁰ and in the times of perceived necessity this exchange rate is readily manipulated. As in other DS cases the banking sector has not become an independent element of the market economy, but a developmental tool at the government's disposal in order to advance its agenda. China has been utilising indirect (rate manipulations, rebates and exemptions) and direct subsidies (direct payments) to targeted sectors and enterprises⁶¹. Fiscal (tax) subsidies have also played an important role⁶².

As far as international economic interaction, including international trade, is concerned, Chinese authorities embarked on a policy of massive economic expansion in developed and developing regions alike⁶³. They have been negotiating free trade agreements⁶⁴, have provided development assistance on a continental scale, and, in many cases, become the main source of foreign direct investments⁶⁵. All this to create political and economic links to trade with and in new markets. At the same time, the government has employed a comprehensive state regulatory machinery. Export-oriented production is supported by subsidies, as mentioned above. As far as import is concerned, China has used a number of tariffs (e.g. import custom taxes) and non-tariffs, including bureaucratic barriers to selectively prevent import. In order to comply with WTO regulations, it redesigned its strategy and developed a range of additional instruments to prevent its domestic market's penetration by foreign products and economic entities, via, for example, very strict and ambiguous standardisation procedures⁶⁶, IPR violations and the infamous Catalogue⁶⁷.

⁶⁰ See: A. Mehrotra and J.R. Sanchez-Fung, *China's Monetary Policy and the Exchange Rate*, Federal Reserve Bank of San Francisco Working Paper Series 19, 2010; Sh. Yao, D. Luo and L. Loh, *On China Monetary Policy and Asset Prices*. The University of Nottingham China Policy Institute Discussion Paper 71, 2011.

⁶¹ See: U.C.V. Haley, G.T. Haley, *Subsidies to Chinese Industry: State Capitalism, Business Strategy, and Trade Policy*, Oxford University Press, Oxford and New York 2013.

⁶² See: Ch. Wong, C. Heady, W.T. Woo, *Fiscal Management and Economic Reform in the People's Republic of China*, Oxford University Press, Hong Kong 1995.

⁶³ See: M. Jacques, op.cit.

⁶⁴ For China's FTA see: China FTA Network: <http://fta.mofcom.gov.cn/english/index.shtml>, 8.09.2015.

⁶⁵ See: M. Jacques, op.cit.

⁶⁶ *European Business in China Position Paper 2009/2010*, op.cit.

⁶⁷ It is important to note that this examination does not condemn Chinese practices. It merely lists the protectionist measures. Chinese companies have had tremendous difficulties in gaining market access to various sectors of the global economy, dominated by multinationals based in the developed world, as well as market access to many high income economies, including that of the United States. At the same time, China has for years been a major recipient of foreign direct investments, which indicates

The final question of China's development policy refers to the strategy of choosing the state's partners in the developmental endeavour and more precisely in the state-business alliance. This alliance is broadly considered an important mechanism to contribute to developmental states' rapid industrial advancements – the state prepares the plan for sectoral production development, the business sector implements it. Here, as empirical evidence suggests, not all post-socialist China's solutions have been in line with DS arrangements. For example, the authorities chose to rely on state-owned enterprises rather than private companies, as was the case of Japan and Korea. Instead, China chose to follow the Japanese and Korean patterns in another dimension. In the 1990s the government commenced a process of mergers and acquisitions among large state-owned enterprises, and, in particular after the 15th CCP Congress (1997), started grouping companies and creating large conglomerates, similar in size to Korean *chaebols* and Japanese *keiretsu*. This has been an element of a broader policy to alter the ownership situation in the business sector called *zhuada fangxiao* (keeping the large and letting the small go)⁶⁸. As a result, a number of large conglomerates such as Shenhua, Baoshan, Sinopec and PetroChina to name a few, have been established. The reliance on state firms does not need to be a permanent feature. Nevertheless, it seems like a long-term arrangement, despite the increasing prominence of private domestic firms in the Chinese market and private entrepreneurs in the communist party; the latter being the result of implementation of Jiang Zemin's concept of "three represents"⁶⁹.

The Post-Socialist Developmental State in the Xi Era

China's current state leadership has not turned away from following PSDS, despite the fact that the Xi administration⁷⁰ began its term with promises of further market reforms⁷¹, which could suggest a shift from DS provisions. The assumption has been

its relative openness to foreign companies (For details see: P. Nolan, *Is China Buying the World*, Polity Press, Cambridge 2012). For the Catalogue analysis see: Sh. Breslin, *Foreign Direct Investment in the PRC: Preferences, Policies and Performance*, "Policy & Society" 2006, No. 25(1), p. 9–38.

⁶⁸ Sh. Breslin, *China and the Global Political Economy*, Palgrave MacMillan, Basingstoke 2007; M.E. Gallagher, op.cit.

⁶⁹ The concept states that the communist party represents the overwhelming majority of the Chinese people. For details see: Z. Jiang, *Selected Works. Volume One*, Foreign Languages Press, Beijing 2010.

⁷⁰ I purposefully use the term Xi administration (of President Xi Jinping) as opposed to Hu-Wen administration (of President Hu Jintao and Premier Wen Jiabao), as contemporary China's political affairs seem to be a "one man show", with Xi Jinping's powers often compared to those of Deng Xiaoping.

⁷¹ See, for example, O. Tanaka, *Economic Reform and Economic Policy of the Xi Jinping Leadership*, "Japan, Public Policy Review" 2015 (March), No. 11(1), p. 1–44, Policy Research Institute, Ministry of Finance.

that the interventionist model, characterized by the state's heavy involvement in the economy, which dominated the first 30 years of reforms and opening up has come to exhaustion. It eventually led to a growth in social inequalities, significant damage to the natural environment and, most recently, de-acceleration of the pace of economic growth. The perception – fuelled by a number of articles in prominent magazines – has been that if a lack of adequate market forces has brought upon China these, to put it in mild terms, worrying trends, then one need to introduce more market forces to amend the situation.

Since the commencement of economic transformation by Deng Xiaoping in 1978, China has undergone an extensive process of liberalization. A type of market-based economy was constructed. Nevertheless, with the Hu-Wen administration, from 2003 onwards, the liberalization process essentially halted and China has since only reluctantly been fulfilling its obligations related to its WTO membership. The Xi administration rhetoric has been viewed as an indication of resuming the process of economic liberalisation and market reforms. However, in recent years China's economic liberalisation has been an illusion⁷². Despite the promises of more market forces in China's economy, China's economic liberalization seems to have stalled, and only at the end of 2014 some promised reforms started being implemented⁷³.

However, many new policies and regulatory changes, despite the fact that they might rightly be seen as an element of economic liberalisation, are, nevertheless, in line with PSDS expectations. As a result of 3rd Plenum of the 18th CCP National Congress, the head of the state consolidated and strengthened his powers to coordinate reforms by establishing and chairing the Central Leading Group for Comprehensively Deepening Reforms and increased his grip on domestic security by chairing the Central National Security Commission of CCP⁷⁴. The creation of the leading group on reforms mirrors the desire to achieve Korean-style control over the development and transformational trajectories by the state leadership. Moreover, through his anti-corruption campaign Xi Jinping has aimed to enhance the quality of state cadres and administration and thus to improve China's political meritocracy⁷⁵. The effective state bureaucracy is at the core of the functioning of the developmental state.

⁷² A. Bolesta, *The Illusion of China's Economic Liberalization*, Policy Press blog, <https://policypress.wordpress.com/2015/07/03/the-illusion-of-chinas-economic-liberalization/> accessed 3.07.2015.

⁷³ See: B. Naughton, *Is There a "Xi Model" of Economic Reform? Acceleration of Economic Reform since Fall 2014*, "China Leadership Monitor" 2015, No. 46, Hoover Institution.

⁷⁴ As announced at the 3rd Plenary Session of the 18th Central Committee of the CCP in November 2013.

⁷⁵ See: D.A. Bell, *The China Model: Political Meritocracy and the Limits of Democracy*, Princeton University Press, Princeton 2015.

The PSDS model is visible in another offspring of the recent economic policy, namely, the establishment of three free trade zones (FTZ) in Tianjin, Fujian and Guangdong, in addition to the expansion of the Shanghai FTZ, in April 2015. These actions represent the very gradual mode of economic opening up, as advised by the PSDS model. This process has been accompanied by protectionist and interventionist measures as illustrated by issuing a list, which stipulates sectors of foreign investment confined to the FTZ and disallowed elsewhere. The document is believed to be more comprehensive than the Catalogue Guiding Investment in Industry⁷⁶.

At the same time, some of the current policies are explicitly aimed at broadening the support for the state and the state leader by means and tactics well versed within the historical developmental states. For example, the agricultural land rights reform (2014–2015) has firmly established three divisions of rural land according to the ownership rights and subsequent entitlements – collective ownership, land contract rights, land management rights. “The fundamental impact of this policy is to create a nationwide system of secure and transferable property rights in agricultural land”⁷⁷, but also to partly address a neglected sphere during China’s transformation, which is important in the DS context, namely, property rights. Moreover, this reform may be seen as making advancements in building “embedded autonomy”, in which the needs of the society are more effectively addressed.

The state has not abandoned intervention, as the summer 2015 cases of stock market and RMB exchange indicate. The government is believed to have spent over 150 billion USD in an attempt to stabilise shares of listed companies. Due to some alleged methodological changes, which resulted in the devaluation of the RMB in August 2015, the policy of Central Bank’s continuous manipulation of the national currency’s exchange rate resurfaced as a topic of international media.

The policy of international economic expansion has acquired a new powerful instrument, namely the Asian Infrastructure Investment Bank (AIIB). The Bank – controlled by China – will add to activities of China Development Bank and China Exim Bank whose loans to developing countries are on a par with those of the World Bank⁷⁸. Although the AIIB establishment may be seen as a welcome and necessary occurrence in the process of transformation of the global financial order, there is little doubt that it will serve some economic purposes of the PRC.

⁷⁶ See: China Briefing: *The New free Trade Zones Explained, Part II: The Negative List*, “China Briefing”, <http://www.china-briefing.com/news/2015/04/30/new-free-trade-zones-explained-part-ii-negative-list.html> accessed 30.04.2015; For Catalogue see: Sh. Breslin, op.cit.

⁷⁷ B. Naughton, op.cit., p. 5.

⁷⁸ See: M. Jacques, op.cit.

Finally, and regardless of the recent policies, Chinese authorities are convinced that the social and environmental problems their country is currently facing cannot be solved by market forces. And this is the perfect excuse to continue following its long-term model of development with an interventionist state, despite the official propaganda to the contrary.

The higher echelons of the Chinese communist party long ago chose the model of China's development and since the beginning of transformation the general idea has hardly been altered, despite the plethora of analyses that claim to the contrary. This model can essentially be summarized as an attempt to employ the systemic, institutional and policy solutions used by Japan, Korea and Taiwan during their high growth periods⁷⁹. It is often argued that this model is also compatible with the set of characteristics of China's culture⁸⁰.

It is true that China is very different from these countries. It is much larger and more decentralized; it has a different historical institutional background as it was a socialist country; and finally, it attempts to imitate them at a time when the advancements of globalization in a way impose a great deal of openness on national economies, thus making some of the Japanese, Korean and Taiwanese historical policies incompatible with the arrangements of the contemporary world.

Nevertheless, with all its indecisiveness and reform retrenchments, China's leadership has vigorously implemented the East Asian development model as extensively as the internal and external conditions have allowed. This implementation is clearly visible when we examine China's trade policies to support export and to discriminate import, when we observe the deliberate policy of development of certain sectors of export-orientated production; when we see economic nationalism becoming, next to political nationalism, the leading state ideology; and when we see how the leadership wants to keep the society subordinate and obedient and at the same time supportive of the national development trajectory, and does so by keeping the social sphere weak and unorganized and by, nevertheless, creating conditions for gradual improvements in the welfare. Most importantly, however, China's affinity to the East Asian development model can be seen through the continuous central role of the state in transformation and in development.

This policy of imitation, presided over by central economic bureaucracy in the form of NDRC, coupled with economic reforms leading from a state-command

⁷⁹ See: A. Bolesta, op.cit.

⁸⁰ See: M. Jacques, op.cit.

economy to a market economy, results in China being a genus of post-socialist developmental state; a concept which fuses two important processes – and, which indeed characterises contemporary China – the establishment of the developmental state and the post-socialist transformation.

Although the current state administration may be creating what Naughton calls a “Xi Model”, and this model’s important component will be economic reforms, as examined by Naughton in reference to fiscal reform to tackle local government finance and debt, to the growing attempts to liberalise trade by completing FTA and by creating FTZ, and to legal changes in agrarian land regulations,⁸¹ none of those policies dislocate the principles of the PSDS and are unlikely to do so in the foreseeable future. While on its post-socialist reform and development trajectory, China has persistently followed the recipes of the post-socialist developmental state.

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⁸¹ See: B. Naughton, op.cit.

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